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PORUGAL

Progress appears to have been made in forming a new cabinet, and an announcement could come as early as today.

A communique issued yesterday by the Revolutionary Council expressed approval of Admiral Azevedo's efforts to put together a cabinet of military officers, Socialists, Communists, and Popular Democrats. The cabinet talks had bogged down over the Communist Party's refusal to join in a coalition with the center-left Popular Democratic Party, but yesterday, the Communists reportedly agreed to let their members participate on a non-party basis.

Even as they move toward the formation of a new government, the politicians in Lisbon seem increasingly preoccupied with the threat from the right and appear particularly concerned about the activities of former president Antonio de Spinola. The Council communique issued yesterday contained a stern warning to Spinola, now in exile, that he is still considered implicated in the rightist coup attempt on March 11 and that he will be arrested if he returns to Portugal.

In recent weeks, the Portuguese press has been making much of the possibility that Spinola might lead an invasion from Spain, where his supporters have been given sanctuary and moral support.

This speculation was fed by Spinola's arrival on September 3 in Paris, where he reportedly has been meeting with other exiles to assess the present political situation and discuss strategy. In a press conference on Wednesday, Spinola denied he is planning an invasion, but he said that Goncalves' ouster had not changed anything and that the Armed Forces Movement should turn over power to the political parties and return to the barracks.

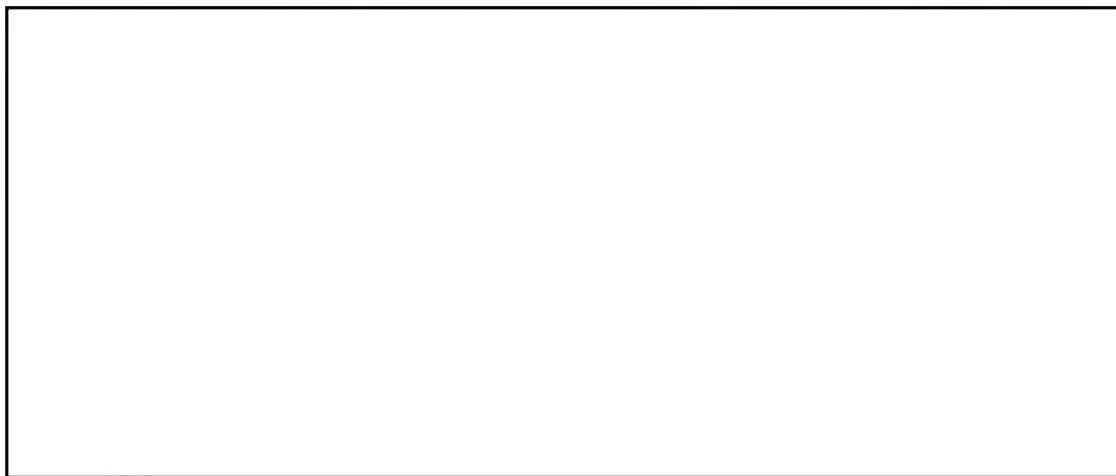
Military and civilian political factions in Portugal have tried to use the Spinola threat for their own purposes. The announcement by the Revolutionary Council probably was a move by the influential Antunes group to counter earlier Communist charges that it was trying to return the country to a fascist dictatorship.

Socialist leader Mario Soares—in an apparent effort to put some distance between himself and Spinola—warned that Portugal now faces a greater threat from the fascists than from the Communists and that a right-wing coup attempt might be imminent. Not to be outdone, Communist leader Alvaro Cunhal said that his party had agreed to compromise and join the new government because it feared Spinola might succeed in returning to power.

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Spinola's activities, however, are more than just an excuse for political maneuvering in Lisbon; some political and military leaders see him as a genuine threat.



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Months of political and economic turmoil in Portugal and growing public restiveness, particularly in the north, provide Spinola with potential popular support.



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CYPRUS

The near total collapse of the intercommunal talks this week in New York has prompted the Greek Cypriots to take their case to the UN General Assembly as a means of exerting additional pressure on the Turks. They have been encouraged to take this step by the strong support they received at the recent nonaligned conference in Lima. President Makarios will come to the UN in late September to lead the Greek Cypriot delegation.

A full-scale debate in the UN might still be averted, according to Greek Cypriot negotiator Clerides, who told a US official this week that one would probably not take place until after the Turkish elections on October 12. This would still give the Turks time to submit proposals on the territorial question. Clerides cautioned, however, that a mere promise by the Turks to discuss territory would not suffice for the Greek Cypriot side to agree to another round of talks. The Turks instead would have to submit their proposals in advance, following which the Greek side would indicate whether another meeting would be useful. Clerides' statements apparently reflect Makarios' determination to avoid future negotiations that merely give the appearance of progress and lessen the pressure on the Turks to negotiate seriously.

The impasse in the talks may prompt the EC Nine to try to narrow differences and thereby avert an acrimonious debate in the UN that could further harden the respective positions. Earlier this summer the EC Nine offered to mediate the dispute and have subsequently made demarches to the interested parties urging them to be flexible. The Nine decided to await the results of the New York talks before taking additional steps.

The Turks generally have been cool to an EC role in the Cyprus dispute, but the prospect of possibly heading off consideration of the issue by the General Assembly could make them more receptive.

Meanwhile, a period of increased tension is likely along the cease-fire line in Cyprus as a result of the suspension of intercommunal talks.

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EGYPT

Egyptian navy commander Zikry recently indicated interest in Western supply sources for the navy's modernization program. He said the navy urgently needs to be re-equipped and that the Soviets are no longer a reliable source of supply. Zikry revealed that he will soon begin a two-week shopping visit to the UK.

He says the navy's priorities include: new missile boats capable of dealing with Israeli Saar gunboats, three new submarines, and four new multipurpose frigates with antisubmarine, air defense, and helicopter capabilities.

The Egyptians are considering both British and French missile boats. Zikry also expressed a preference for a US-designed boat equipped with the Harpoon antiship missile, although he understands that acquiring it is not possible at this time. His reference to a US system may be a signal that the Egyptians may soon be in the market for US military equipment.



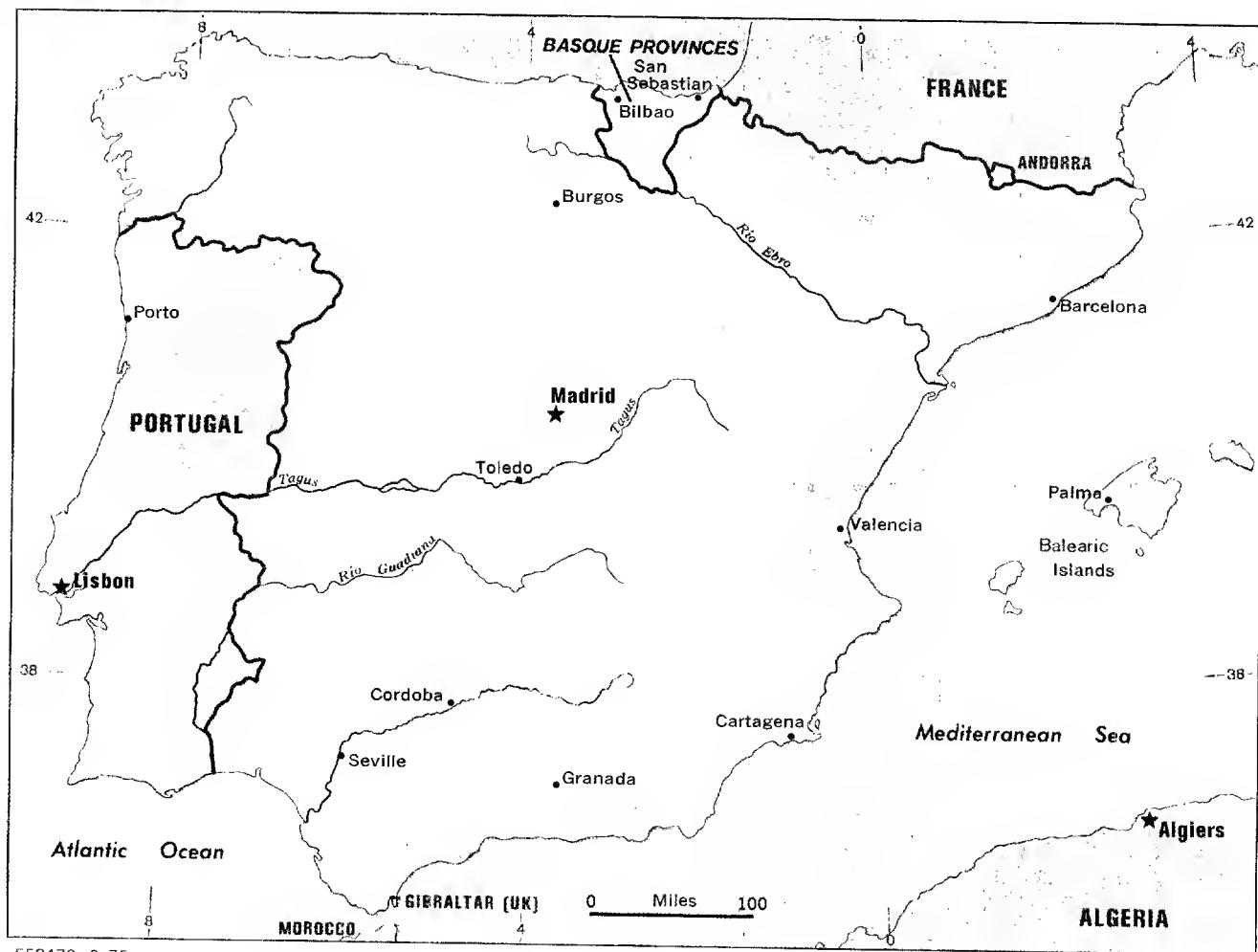
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SPAIN

Tension continues to mount as time runs out for the two Basque terrorists condemned to death late last month for killing a member of the Civil Guard.

The controversy stirred by the handling of the case, which is now being reviewed by the supreme military tribunal, is likely to be intensified by the death sentence passed yesterday against three members of a Marxist-Leninist terrorist organization—the Patriotic and anti-Fascist Revolutionary Front—who were convicted of slaying a policeman in July.

Few issues in Spain are as capable of mobilizing the far right and the security forces as the killing of policemen. Last month members of the Civil Guard—the elite paramilitary police force—and civilian rightist groups used the funeral of a slain guardsman as a focal point for a demonstration that nearly got out of hand. Cars carrying government officials were damaged and the demonstrators shouted criticism of the Arias government. Twice since late August, officers and men of the Civil Guard have conducted demonstrations to demand the prompt executions not only of the two convicted Basque terrorists but also of others as yet untried.

The guardsmen have accused Prime Minister Arias and Interior Minister Garcia of being weak, ineffectual, and cowardly. [redacted]

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The campaign to pressure Franco into commuting the death sentences also is gathering support. A wave of demonstrations and strikes has swept the Basque province since the two terrorists were convicted last month. One demonstrator has been killed by police and several others wounded, but even greater violence is likely if the executions are carried out.

The death sentences have prompted a flood of protests by foreign governments, trade unions, and other organizations. In addition, Spanish diplomatic and consular facilities in Portugal, as well as the Spanish consulate and Spanish-owned businesses in the French Basque country, have been bombed, and there have been large demonstrations in Lisbon, Brussels, and Paris. [redacted]

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Under similar circumstances in 1970, Franco commuted the death sentences of six Basque terrorists. The reaction from rightist forces in Spain this time is probably an effort to counterbalance the expected arguments by more liberal elements of the government that Spain's image will suffer serious damage abroad if the sentences are carried out.

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INDIA

Most observers expect the Indian supreme court to rule in Prime Minister Indira Gandhi's favor in the important constitutional case currently before it. The decision, expected later this month, will be on a challenge to the legality of an amendment to the constitution, rammed through parliament in August, that exempts a prime minister's election from review by the courts.

There may not be a clear-cut decision. The five-man bench hearing the case might, for instance, prolong the controversy by calling for the full court of 13 justices to decide on whether the amendment violates the constitution.

A favorable verdict is important to Gandhi because it would negate her court conviction last June for breaking campaign laws in the 1971 election. With pressure on her reduced as a result of vindication by the court, the Prime Minister might relax some of the restrictions she has imposed on the press and her political opponents since the emergency was proclaimed on June 26. The publicized release of a prominent Indian journalist yesterday, and a few politicians earlier this week, may be a trial run.

In the less likely event the court rules against Gandhi, she might decide to press for major changes in the structure of the government. She has already made it known that she favors a less powerful judiciary. Her party's large majority in parliament would give her the necessary votes to secure passage of such legislation.

Meanwhile, the general public continues to accept Gandhi's authoritarian measures, largely because of the country's encouraging short-term economic prospects and the increased discipline in both the bureaucracy and the economy resulting from emergency regulations.

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TIMOR

The crisis in Portuguese Timor seems likely to remain in the diplomatic arena

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Lisbon is trying to steer the parties back to the gradual decolonization scheme reached in Macao in June. Following informal meetings with Portugal's special envoy in Jakarta on September 11, Indonesia announced its agreement in principle to negotiations between the Portuguese and the three Timorese factions, to begin September 20 in Macao. It is not yet clear, however, whether the radical Fretilin party, which now controls most of the territory, will agree to join the talks.

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Meanwhile, an Indonesian press report says that western districts of the territory have proclaimed merger with Indonesia.

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CUBA

Cuban President Dorticos' address on Monday to the closing session of the Puerto Rican Solidarity Conference reaffirmed Cuba's "unlimited support" for the cause of Puerto Rican independence. The way Havana handled the conference, however, suggests that the Cubans do not want the Puerto Rican issue to become a stumbling block in the way of negotiations designed ultimately to normalize relations with the US.

Dorticos reiterated Cuba's long-standing position that Puerto Rico "is a Latin American nation subjugated to colonial domination and is not a domestic problem of the US." He asserted that debate on Puerto Rico will continue in the UN and that the Cuban government neither regrets nor will change its advocacy of the Puerto Rican cause in that organization. Dorticos further denounced US pressures that succeeded in shelving until next year a UN resolution on Puerto Rico, which Cuba co-sponsored.

Despite Dorticos' strong statement of support for Puerto Rican nationalists, he concluded his address with an ambiguously worded statement on the relationship between Cuban support for Puerto Rican independence and US-Cuban detente. Dorticos observed that "the Cuban government cannot accept involvement in the Puerto Rican cause and our unyielding duty of solidarity with it as a controversial bilateral issue between the United States and Cuba." He continued that Cuban support for any independence movement which might emerge from the conference would be "clearly explained" by Prime Minister Fidel Castro "in connection with the problem of relations with the US."

There is some evidence that Castro was surprised by the vigor of the US reaction to Cuba's UN initiative and tried to limit the impact of the Puerto Rican campaign in the US.

-Dorticos' speech contained none of the more extravagant accusations against the US included in the conference's final declaration and limited itself to a fairly standard Cuban analysis of Puerto Rico's relationship with the US.

-Castro had a quasi-governmental organization rather than the Foreign Ministry prepare for and conduct the solidarity conference.

--Castro also chose to have Dorticos make the speech rather than himself, perhaps calculating that a tough speech by someone else would have little long-term effect on Cuban-US relations.

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--Furthermore, in what appears to have been a deliberate effort to ensure that the event was not spotlighted in the US, he limited US press coverage and even canceled the scheduled visit of a US television network correspondent.

The Cuban leadership apparently had decided to exploit the Puerto Rican issue in order to re-emphasize its commitment to revolutionary, anti-imperialist principles and provide a counterbalance to Cuban gestures toward normalizing relations with the US. The solidarity campaign also allowed Castro to answer domestic opposition to a modification of Cuba's relationship with the US.

Castro and Deputy Prime Minister Rodriguez evidently believe that Cuban support for Puerto Rican independence will enhance Havana's prestige in Latin America and reinforce Cuba's claim to leadership of the Latin American bloc in the Third World. However, neither Castro nor Rodriguez is reported to have a personal interest in the issue, since both recognize the impotence of the Puerto Rican nationalists.

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ARGENTINA

Argentine Economy Minister Cafiero, just back from negotiations in the US, has announced significant progress in obtaining badly needed financial assistance from abroad.

His success not only will bolster the nation's serious balance-of-payments situation but will also enhance Cafiero's personal reputation. He has already emerged as the cabinet's most prominent figure.

Cafiero told a press conference on his return from Washington that he had secured over \$800 million in loans. The International Monetary Fund has agreed to supply a \$200-million credit for export expansion and petroleum purchases; the Inter-American Development Bank will provide \$100 million and may be prepared to supply still more for a variety of projects; commercial banks will lend \$440 million; and Venezuela will increase its deposits in a major Argentine bank by some \$60 million.

Cafiero again sounded a basically optimistic note on prospects for the economy, while not minimizing the magnitude of such problems as inflation, unemployment, disinvestment, and a highly unfavorable balance of payments. Cafiero indicated that no new massive devaluations were in store, but said that frequent mini-devaluations designed to keep exports competitive would be carried out.

Cafiero's advent as the government's man of the hour is a mixed blessing at best. A succession of highly visible and often competent cabinet officers before him have been stripped of their influence, at least in part because of fears that they were seeking too much personal power.

The concerted efforts of organized labor and the military ultimately achieved the ouster of social welfare minister and chief presidential adviser Lopez Rega. Similar pressure was brought to bear on former interior minister Benitez, whose activist role, despite his competence, aroused suspicions. His successor, Col. Vicente Damasco, was almost immediately perceived to be reaching for power and lost his military commission and most of his prestige as a result.

Cafiero's successful beginning in dealing with the nation's number-one problem has enhanced his prospects as a potential presidential candidate in 1977 and will thus draw the fire of other contenders for power. He will have to match his skill as an economist with adroit political moves if he is to succeed where many others have failed.

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ARGENTINA: According to press accounts, President Peron has formally transferred her authority to Senate president Italo Luder and today will begin a 40-day leave of absence within the country. The often rumored vacation is said to be for health reasons. Luder is next in the line of succession and would take over at least temporarily in the event Mrs. Peron did not resume her duties. Effective power has long since passed from her hands; some observers have speculated that a vacation might be the prelude to her departure from office.

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